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**I. CHINA/USSR: GLIMMER OF HOPE FOR HARD-LINERS (B1)**

While China has responded with low key restraint to the dramatic events in Moscow, no government is watching more closely or has more to gain by the success--or lose by the failure--of the anti-Gorbachev coup. After months of watching the world's only other socialist power crumble, China's leaders see both hope and danger in the coup. Whatever the outcome, the Soviet crisis will exacerbate Chinese succession tensions.

Chinese leaders have long viewed Gorbachev's openings to multiparty politics, ethnic and republican autonomy, unrestrained public expression, cooperation with the West, and privatization of state enterprises as serious threats to their own shaky legitimacy. More recently, [REDACTED] Gorbachev's kowtowing to the G-7, and the focus on "democratic socialism" at the recent Soviet Communist Party Central Committee plenum have exacerbated Chinese fears.

**New Lease on Socialist Life**

The Moscow coup on August 19 opened up new possibilities for Beijing's hardliners. Through the first two days, Beijing has maintained a muted public response. A foreign ministry statement emphasized PRC opposition to external "interference" in Soviet "internal affairs" and called for "unimpeded growth" in Sino-Soviet relations. Chinese media, under tight restraints, reported events straightforwardly, but without comment. By reporting that a trade union delegation left for Moscow on August 19 as scheduled, Chinese authorities projected a business-as-usual atmosphere.

Between the lines, though, the pleasure of Beijing leaders in the course of events in Moscow was evident in the quickness, quantity and faid accompli cast of Xinhua coverage of the coup.

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**EXCISE**

[redacted] senior PLA officers "are comfortable" with, and even gloating over. Moscow developments, seeing a victory for communism and a setback in the US quest for "supremacy" in the new world order. [redacted]

[redacted] Soviet relations with the West would deteriorate if the coup succeeds. However, Chinese diplomatic and foreign policy analysts also stress that the situation is fluid and the new regime would face the same intractable domestic problems as Gorbachev. [redacted]

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#### The Leadership Calculus

The playing out of the Soviet crisis could have a major impact on the Chinese succession struggle, which again is heating up. Even before the Moscow coup, prospects for the Soviet Union had become increasingly important to the Chinese political equation. Whatever political deals had been worked out in Beijing in anticipation of a scheduled September party plenum may be now open to renegotiation. Immediate political risks and opportunities, not longer-term national interests, will dictate reactions. If faced with a lengthy and/or bloody crisis, PRC leaders will be forced to concentrate on squelching rumors and unrest in Beijing and to delay major party decisions.

Beijing hardliners will be cheering for the new Soviet regime to impose order along the lines of the post-Tiananmen "Chinese model." This would justify their own recentralizing bent and help them consolidate power through personnel decisions now being worked out for the upcoming party plenum and a party congress in late 1992. To build political pressure on opponents, they would step up polemics against "democratic socialism" and "bourgeois liberalism". Backers of Deng Xiaoping and Jiang Zemin, whose program parallels Gorbachev's original reform tacks and a similar nonideological approach in foreign policy, would see their latest--and already faltering--attempts to regain momentum set aside.

No one in the leadership would gain if the coup attempt were to fail soon, and Yeltsin and other democrats won a measure of victory due to splits among civilian and military hardline forces. Beijing would likely return to the bunker mentality evident after the Romanian revolution, with differences being papered over in the name of regime survival. This too would delay a return to grudging reform and small, albeit important concessions to the US and the West on human rights and arms control. (CHamrin/JHuskey) (SECRET/NOFORN)

#### II. CHINA: INFIGHTING INTENSIFIES (8/16)

Leadership infighting in China appears to have intensified to the highest level since the Tiananmen crisis of 1989. At stake are personnel appointments, economic policy, control over the military, foreign policy, and ideology. Deng Xiaoping's

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early spring efforts to regain reform momentum have stalled; he appears now to be focusing on personnel issues. But Deng's political weakness suggests he will have to make major compromises even in this crucial area.

The leadership's self-imposed two-year moratorium on infighting after Tiananmen has ended, and the need to make personnel decisions prior to next year's party congress--which will select leaders for new five-year party and state terms--is driving intensified jockeying. At issue are the future of Premier Li Peng, and the retirement of President and military commission vice chair Yang Shangkun and other incumbent elders.

Deng's efforts fall short. Last spring, Deng tried to jump-start his reform program, [REDACTED]

[REDACTED] injecting new blood among the vice premiers. But, unable to sustain momentum, he was forced to rely on Shanghai, rather than central, media to carry his call for more reform, an effort that elicited little response. Recent efforts by Deng and party chief Jiang Zemin to promote science and technology as a back door to accelerated reform have also fallen flat.

Hardliners counterattack. Throughout the spring and summer, hardline-dominated media have kept up a drumbeat of diatribes against "peaceful evolution" and "bourgeois liberalization," crowding out arguments for further reform. As part of an apparently concerted effort to reduce Deng's stature to co-equal with other "retired" elders, the central media have hyped memoirs by Deng rivals Peng Zhen and Bo Yibo, and extensively covered articles by or about Advisory Commission Chairman and conservative doyen Chen Yun. Chinese media are once again overflowing with paeans to Mao Zedong's thoughts on issues from economics to military affairs. Hardliners reportedly have also backed articles by anti-US polemicists implicitly attacking Deng's past policies.

Military rumblings. The military remains a major arena of contention. Military Commission Chairman Jiang Zemin continues unsuccessful efforts to assert his authority, obstructed especially by PLA General Political Department Director Yang Baibing, Yang Shangkun's brother. Deng appears to be of two minds [REDACTED]

Prospects. Deng's past modus operandi has been to wait for his opponents to over-commit themselves, then counterattack. He may again be pursuing this strategy. But, politically weakened

and lacking strong proteges like Yu Yantang and Zhao Ziyang to advance his cause, Deng's counterpunch this time may lack its customary vigor. In the interim, efforts by Deng and the hardliners to position themselves before next year's party congress are likely to set off a new round of scrambling that could result in another leadership crisis. (CClarke)  
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### III. CHINA: BEIJING'S BOGEYmen (7/27)

Beijing undertook an extensive search after Tiananmen for an organizational network behind the "conspiracy." None was found, but top leaders remain convinced that numerous illicit organizations, supported by "hostile foreign forces," are trying to subvert the regime. Hundreds of illegal groups appear to exist, some with foreign connections. Few present any threat to the regime, but their growth illustrates the erosion of the regime's legitimacy and authority.

Traditional . . . China's countryside during the last decade has seen a widespread return of pre-revolution traditional organizations ranging from criminal networks and secret societies to familial clans. Few have larger political aims than controlling local land and resources or pursuing criminal activities with impunity. But such groups can disrupt local order and interfere with party control; occasional press reports, which almost certainly provide only a glimpse of a larger phenomenon, report clan battles involving hundreds of people and extensive inter-provincial criminal networks.

. . . Religious . . . Beijing also decries the growth of unsanctioned religious groups that "threaten" social stability and political control. In rural areas traditional superstitious practices--exorcism, divination, and religious cults--are denounced for preying on the vulnerable and undermining regime authority and enthusiasm for work.

Beijing fears more seriously the rapid growth of Christianity in both city and countryside--both within approved and "underground" churches--citing the Catholic church's role in the fall of East European regimes. Vice President Wang Zhen, a hard-liner, reportedly warned last March that in some areas, Catholic priests have displaced party officials as a source of local authority. Despite a payment of one yuan per person, few attend political meetings, bemoaned Wang, while villagers flock to church without remuneration.

. . . Ethnic . . . Tibet's separatist movement is well known, but it is not the only example of ethnic ferment in China. In April 1990 Moslem Uighurs in Xinjiang staged an armed uprising that was quelled only after several dozen people were killed. During the past two years other violent ethnic clashes

have been reported in Xinjiang, Yunnan, and Inner Mongolia. 6

[REDACTED] Ethnic minorities account for only eight percent of the population (up from five percent a few years ago) but are concentrated in strategic border areas.

... and political. 5  
[REDACTED]

[REDACTED] overseas dissidents carefully protect their mainland contacts in order not to jeopardize them and the handful of 1989 protest leaders who apparently remain at large in the PRC. But two years on, subjects of Beijing's intensive manhunt remain on the loose, and occasionally make their way out of China, suggesting a fairly widespread network with extensive official contacts. (CClarke)  
(SECRET//NOFORN)

#### IV. PRC/UK/HONG KONG: TEACHING A LESSON (8/13)

Prime Minister Major will visit Beijing in early September to sign a memorandum of understanding on the Hong Kong airport project, resolving a long-standing controversy. The agreement signifies greater UK and Hong Kong government (HKG) willingness to accommodate PRC interests in the run-up to 1997. Hong Kong business interests, many of which began long ago to come to terms with PRC rule, seem relieved.

During the protracted airport negotiations the PRC used the gamut of traditional Chinese techniques: alternating tough talk and reassuring statements to soften up the adversary and then win good will and concessions; focusing on principles rather than details, aiming to interpret ambiguities to its own advantage; keeping talks on Beijing's home court (including Hong Kong, where it controls parts of the press and can manipulate public opinion); exploiting the "contradictions" between colonial masters and Hong Kong's people; and dragging out the dispute to exploit British impatience to close an unpleasant process.

British win the battle: who won the war? During the controversy the PRC kept the HKG on the defensive by harping on the airport's expense and HKG failure to consult on post-1997 liabilities. Despite narrowing of differences in endless talks and high-profile visits to Beijing by Hong Kong's governor and the UK foreign secretary, by late May the British were on the verge of postponing the project, refusing to accept the key PRC demand for an explicit veto over all important Hong Kong decisions straddling 1997.

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Major sent his foreign policy adviser, and agreement was swiftly reached, with the Chinese yielding on the key veto issue. But the PRC reaped the maximum benefit: Britain gave numerous concessions on financing and consultative mechanisms--useful precedents for greater PRC involvement in Hong Kong affairs in the future.

Getting to know but not love you. Despite its failure to win a veto right, China made its point that Britain must consult on Hong Kong decisions straddling 1997, and the PRC will attempt to exert more influence as 1997 approaches. Still, though each side will continue to defend its interests, the agreement could make resolution of other issues easier. HKG morale has suffered from the bruising negotiations and from being cut out of the final talks, but it may now work harder to accommodate Beijing in resolving practical issues. The larger issue of the degree of local autonomy versus PRC control will be worked out only gradually, before and after 1997, and the result will inevitably be a compromise.

High business confidence. The airport agreement has bolstered local confidence, evidenced by rises in the stock market and real estate prices. The PRC, which has its own vital stake in the Hong Kong economy, contributed to the climate by its positive press spin on the agreement. Airport construction will help boost the local economy. Meanwhile, Hong Kong's economic integration with southern China continues apace as Hong Kong manufacturers establish factories in next-door Guangdong province and PRC banks and businesses set up in the colony. Hong Kong remains a favorite hub for foreign--including US, Japanese, and, most recently, Taiwanese--business ties with China and southeast Asia. (MFinegan)

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V. CAMBODIA: NEGOTIATIONS INTENSIFY (8/8)

The Supreme National Council (SNC) is to meet again in Pattaya on August 26-28, followed immediately by a meeting of the five UN Security Council Perm Five. Improving relations between Hanoi and Beijing, and Prince Sihanouk's obvious intent to push the settlement process, have set the stage for substantive progress. But it is not yet clear that Phnom Penh and the Khmer Rouge are ready to reach agreement on core settlement issues. At best, a somewhat less tidy arrangement than that proposed by the Perm Five appears likely to emerge.

Recent exchanges between Chinese and Vietnamese officials suggest that Beijing has agreed to the long-held view in Hanoi and Phnom Penh that the "status quo" should be maintained in

Cambodia during the interim period and that the UN's role should be minimal. In return Phnom Penh reportedly will accept Khmer Rouge participation in the political process, though internal differences over this policy may exist. Both Beijing and Hanoi now call for the issues to be worked out by the Khmer parties themselves.

The Khmer Rouge have said nothing yet to indicate they would go along with the deal, but all reports suggest they have turned their attention to building their political base. If such an arrangement has in fact been reached, and the Khmer Rouge agree to go along, the factions should be able to conclude many aspects of a settlement in Pattaya. But for now there remain significant differences in their stated positions.

Demobilization. Prince Ranariddh says the resistance factions, including the Khmer Rouge, will now accept partial demobilization; the Khmer Rouge's recent statements suggest by omission that he is right. But the Phnom Penh regime still talks of keeping the military and political status quo, and its latest draft language calls for cantonment of troops, not demobilization. It seems likely a compromise can be worked out, but it may be one in which few troops are demobilized, though even the two communist armies are likely to be less effective instruments over time as soldiers wander off rather than molder in their camps.

UN control. Under the Perm Five draft, the UN Secretary-General's representative decides questions when the SNC is unable to reach consensus. Ranariddh, however, says the factions will not agree to UN control, and that is certainly Phnom Penh's view. The Khmer Rouge have remained silent on this question. According to Ranariddh, all the factions would agree to having Sihanouk as the ultimate decision-making authority.

[REDACTED] Were this to happen, the settlement process would be largely controlled by the SNC--with the possibility of confrontations should the UN representative and the SNC differ over how the UN is to carry out its duties.

Khmer Rouge public statements continue to center on the need for a large UN military presence to monitor the cease-fire and verify the end of external military aid--that is, the departure of Vietnamese troops. Phnom Penh wants to maintain the present truce arrangement and have only a small UN contingent to give it some legitimacy. The regime, particularly if there is a Beijing-Hanoi understanding, is unlikely to see any reason to agree to a UN role that would seriously compromise its sovereignty.

Genocide, and election rules. Phnom Penh seems to have abandoned an effort to include language about genocide in an agreement, though this could be resurrected as a way to draw attention to any perceived political advances by the Khmer Rouge. With the agreement on Khmer Rouge participation in

political life, attention is now shifting to the electoral process, but the factions have said almost nothing publicly about election rules. Proportional representation, under which the poorly organized non-communists could group themselves behind Sihanouk's banner--even if he is neutral, would favor the KPNLF and Sihanoukists; an election using single-member constituencies would work to the benefit of the two communist factions. (INR/SEA:SJohnson) (SECRET/EXDIS)

#### VI. MONGOLIA: LIMITED ECONOMIC PROSPECTS (8/12)

The visit of Japanese Prime Minister Kaifu this week offers the hard-pressed Mongolian government a tangible sign of support for their bold efforts to reform the economy and an opportunity to pitch for emergency economic assistance. Japan intends to host a World Bank-chaired support-group meeting on September 5-6, but conflicting views about how much aid Mongolia needs and how quickly it needs it could complicate efforts to construct a coordinated aid package.

Kaifu's calling card. A recent Japanese press account indicates Kaifu will announce a two-year Yen grant worth about \$15 million. The grant will underwrite construction of an Intelsat ground station, help rehabilitate electric-power generators, and provide some foodstuffs, according to Embassy Tokyo. But the size of the package may be undergoing last-minute adjustment

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The assistance Tokyo is considering falls far short of what Mongolia wants. Mongolia's ambassador to Japan has said his government hoped to get \$100 million in emergency aid, including \$50 million from Japan, just for the balance of this year.

Mixed views. A recent World Bank evaluation of Mongolia's needs determined that the situation was less urgent than indicated by IMF and UNDP analysis. Both IMF and UNDP officials have expressed concerned that the World Bank view may diminish the amount of Japanese assistance.

Japanese aid officials say they are not interested in debating the seriousness of Mongolia's economic crisis and would rather focus on how to provide short-term emergency aid and longer-term assistance. But they have no desire to see Japan replace the Soviet Union as Mongolia's primary provider. Support-group members should be able to resolve conflicts about the extent of Mongolia's emergency--or maneuver around them--and formulate an aid package that would provide sufficient food, fuel, and foreign exchange to see Mongolia through the winter.

Differences over Mongolia's Junger-Sun requirements may be more difficult to resolve. Sparsely populated, rugged, and landlocked, Mongolia will find economic development an exhausting struggle, even without the added burden of overcoming its communist legacy.

Still, many recent studies note the country's relatively good economic potential, owed to its rich natural-resource base. Japanese companies particularly are interested in the resources, and Mongolia has signed a transport with China that will enhance its appeal as a supplier. Other potential foreign investors are interested almost solely in resource extraction and will probably advise the government to spend heavily on infrastructure to enhance investment in sub-surface exploitation.

But a development strategy centered on exploiting mineral and metal resources will require extremely skillful economic management. This path entails larger outlays for each job created than a strategy focused on agriculture, light industry, and services. And job creation is a key issue. Unemployment is likely to hit 20% by the end of the year and will remain high as the economy attempts to adjust to market mechanisms. With a youthful, rapidly growing labor force, failure to create sufficient jobs would undercut efforts to strengthen political stability, set back development programs, and rapidly expand the need for western assistance. (INR/EC:WNewcomb) (CONFIDENTIAL)